

# KENTUCKY ECONOMIC INDICATORS

July 2006 Indicators as of September 28, 2006

## **KY Composite Index of Leading Indicators decreased 1.6 percent in July.**

- The Leading Index decreased for the fourth time this year.
- The Leading Index rose by 0.3 percent over the same month last year.
- Component indicators were mostly negative, 1:4.
  - KY Labor Intensity Index decreased 1.5 percent.
  - KY Index of Initial UI Claims decreased by 3.3 percent.
  - + US Retail Sales increased 17.5 percent.
  - US Manufacturer's New Orders Index decreased 13.1 percent.
  - Louisville Help Wanted Index decreased 3 points to 34.

*Component weights for July are 61.64, 17.29, 12.50, 6.54 and 2.02 respectively.*

## **KY Composite Index of Coincident Indicators increased 0.4 percent in July.**

- The Coincident Index is positive for the eleventh consecutive month.
- Same-month-last-year growth is positive for the thirty-sixth consecutive month at 2.5 percent.
- All three component indicators leaned positive, 2:1.
  - KY Nonagricultural Employment decreased 3.3 percent.
  - + US Industrial Production Index increased 5.4 percent.
  - + US Personal Income Less Transfers increased 1.9 percent.

*Component weights for July are 40.35, 25.15 and 21.05 respectively. Component weights do not sum to one because the two US components were discounted to give the Kentucky component more weight.*

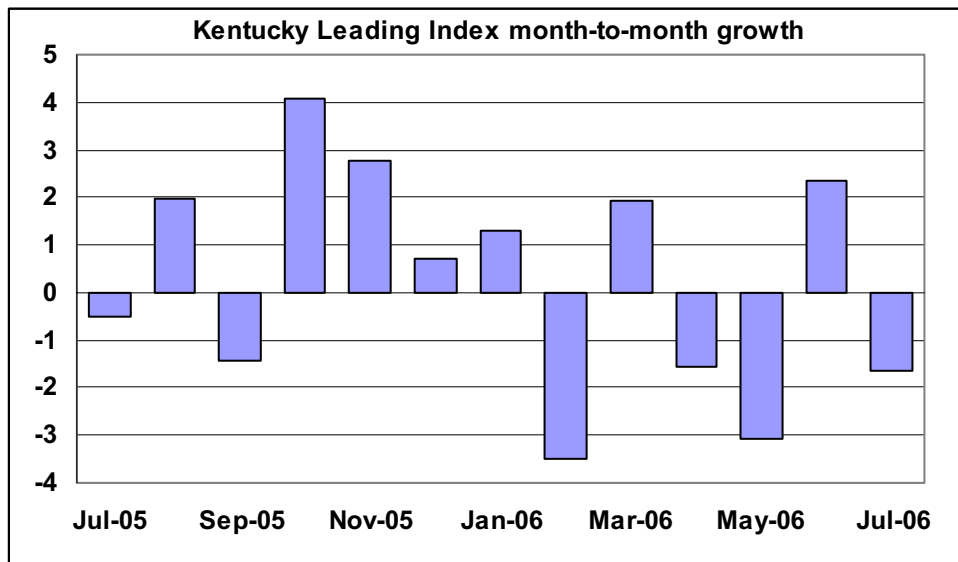
The Kentucky Leading Index declined in moderately in July. This is the fourth time it has declined in the last six months. The index is down over half of a point since January 2006. All three Kentucky component indicators were negative in July as well as one of the two US components. The only positive component for July was US Retail Sales, which was up sharply 17.5 percent. Despite the July growth, US Retail Sales have slowed recently. It has only grown by a net 1.6 percent since January 2006.

The Labor Intensity Index has hovered near the 105.0 value for the past two and a half years. Additionally, the Labor Intensity Index was affected for the third consecutive year by new July layoffs. Beginning in 2004 and each year since, Transportation Equipment employment has fallen systematically in July and risen in August. While this is an annual event, the seasonalization factors used to adjust the data have not yet been updated to account for the higher July layoffs. This discrepancy has to do with the fact that it is a relatively new change in the pattern of layoffs in certain Transportation Equipment industries. It also has to do with a timing issue when the employment surveys are carried out. Until that is addressed, we will continue to see steep downturns in July and sharp upturns in August. For 2004, this resulted in a seasonally-adjusted 5,870 person decline in Transportation Equipment employment for July. For 2005, the seasonally-adjusted decline was 4,990 persons. For July 2006, the seasonally-adjusted loss was 4,030 persons. The other employment sectors in the Labor Intensity Index were essentially flat. The net result was a loss of 1.5 percent for July.

The Kentucky Unemployment Insurance Initial Claims Index declined slightly for July. However, the series has performed well over the last three years, trending upward at an average rate of 2.06 percent per month. Both subcomponents of the Kentucky Initial Claims Index rose this month in equal proportions, indicating that the Kentucky unemployment landscape is similar to the national one for July.

The CPI edged higher in July to 203.2 with 5.5 percent growth. Increasing labor cost continue to make firms cautious about hiring.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the University of Kentucky Center for Business and Economic Research *Kentucky Annual Economic Report, 2000*.



### About the Indicators

#### Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

#### Kentucky Leading Indicators

- **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products, chemical and allied products, rubber and plastic products, fabricated metals, and transportation equipment.
- **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **U.S. Manufacturing and Trade Sales:** This series outperformed Kentucky sales tax receipts and U.S. total retail sales. Current manufacturing and trade sales help form the basis for business expectations for the immediate short run. Since production and investment do not occur instantaneously, the formation of expectations (manifested through current manufacturing and trade sales) should slightly lead the business cycle.
- **U.S. Manufacturer's New Orders Index:** This index has two components: US Manufacturer's New Orders for Nondefense Capital Goods and US Manufacturer's New Orders for Consumer Goods and Materials. Separately these two series slightly missed one or two turning points in the official reference series. But together they preceded each turning point.
- **Louisville Help-Wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.

#### Table Notes:

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, [www.osbd.state.ky.us](http://www.osbd.state.ky.us).

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**SELECTED KENTUCKY ECONOMIC INDICATORS  
SEASONALLY ADJUSTED**

**2005**

**2006**

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL
KY Leading Index (1992=100)	108.7	108.9	108.8	109.2	109.4	109.5	109.6	109.3	109.4	109.3	109.0	109.2	109.1
% Chg Previous Month SAAR	-0.5	2.0	-1.4	4.1	2.8	0.7	1.3	-3.5	1.9	-1.6	-3.1	2.3	-1.6
% Chg Same Month Last Year	0.9	0.9	0.8	1.1	1.2	1.1	1.3	0.8	1.0	0.8	0.5	0.4	0.3
KY Leading Index Diffusion Index	63.3	63.3	63.3	63.3	66.7	63.3	66.7	60.0	63.3	60.0	56.7	60.0	53.3
KY Coincident Index (1992=100)	130.4	129.6	130.2	130.7	131.2	131.8	132.0	132.2	132.5	133.0	133.1	133.7	133.7
% Chg Previous Month SAAR	0.5	-7.5	6.1	4.8	4.8	5.1	2.3	1.9	2.6	4.2	0.7	5.4	0.4
% Chg Same Month Last Year	2.1	1.2	1.7	1.7	1.9	1.3	2.1	2.1	2.3	2.6	2.5	2.5	2.5
KY Nonag Employment (000s)	1,822.7	1,831.1	1,832.1	1,833.4	1,833.9	1,836.0	1,838.5	1,836.7	1,839.6	1,843.4	1,845.7	1,849.4	1,844.3
% Chg Previous Month SAAR	-2.2	5.7	0.7	0.9	0.3	1.4	1.6	-1.2	1.9	2.5	1.5	2.4	-3.3
% Chg Same Month Last Year	1.6	1.7	1.6	1.6	1.5	1.4	1.6	1.2	1.3	1.2	1.2	1.3	1.2
KY Mfg Employment (000s)	256.8	261.9	262.1	263.0	262.7	262.0	261.8	261.9	261.0	260.8	260.3	260.5	255.3
% Chg Previous Month SAAR	-24.9	26.6	0.9	4.2	-1.4	-3.2	-0.9	0.5	-4.0	-0.9	-2.3	0.9	-21.5
% Chg Same Month Last Year	-0.5	-0.9	-0.7	-0.3	-0.5	-0.5	-0.4	-0.3	-0.8	-1.0	-1.1	-1.0	-0.6
KY Unemployment Rate (%)	6.2	6.2	6.4	6.4	6.4	6.5	6.3	6.3	6.0	6.1	5.6	5.8	6.3
KY Index of Initial UI Claims	103.3	103.0	100.4	102.8	103.5	104.0	105.3	104.1	104.1	104.2	103.0	104.0	103.7
% Chg Previous Month SAAR	0.8	-4.4	-25.7	31.9	8.5	5.6	16.4	-12.8	0.6	0.2	-12.5	11.9	-3.3
% Chg Same Month Last Year	1.6	0.8	-2.4	-0.3	0.8	0.7	2.6	0.7	1.0	1.0	0.4	0.7	0.3
KY Labor Intensity Index (1992=100)	104.9	105.0	104.9	105.0	105.0	104.9	105.2	105.1	105.2	105.0	105.0	105.1	105.0
% Chg Previous Month SAAR	-1.8	0.8	-0.6	1.3	0.0	-1.1	2.8	-0.5	0.6	-1.6	-0.3	1.3	-1.5
% Chg Same Month Last Year	0.2	0.0	-0.1	0.1	0.1	-0.1	0.1	0.0	0.0	-0.3	-0.1	0.1	0.1
Louisville HWI (1992=100)	41.0	46.0	56.0	54.0	52.0	52.0	44.0	42.0	40.0	39.0	35.0	37.0	34.0
% Chg Previous Month SAAR	0.0	297.8	959.6	-35.4	-36.4	0.0	-86.5	-42.8	-44.3	-26.2	-72.7	94.8	-63.7
% Chg Same Month Last Year	-8.9	-2.1	40.0	31.7	23.8	26.8	4.8	2.4	0.0	2.6	-10.3	-9.8	-17.1
GF Total Tax Receipts (\$ mill)	573.9	555.1	778.4	632.7	631.1	836.3	681.4	508.0	598.0	756.5	705.2	808.7	578.7
% Chg Same Month Last Year	10.5	8.1	18.8	12.3	7.4	17.8	3.3	1.4	5.2	-6.4	34.2	9.5	0.8
GF Sales & Use Receipts (\$ mill)	238.5	217.4	229.6	235.6	218.6	228.8	289.0	191.1	204.5	230.5	235.4	230.8	249.3
% Chg Same Month Last Year	5.5	2.7	11.1	5.2	8.7	5.1	6.5	8.4	2.2	2.8	8.9	5.1	4.6
GF Income Tax Receipts (\$ mill)	238.1	250.8	278.0	259.3	234.0	254.3	220.9	199.1	171.4	340.2	213.1	259.5	228.6
% Chg Same Month Last Year	6.2	2.2	2.1	3.8	1.7	-1.8	-12.6	-14.0	-2.6	-17.8	-1.0	-2.6	-4.0

# SELECTED U.S. ECONOMIC INDICATORS SEASONALLY ADJUSTED

2005

2006

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL
US Leading Index (1996=100)	136.9	137.0	135.8	136.9	138.2	138.5	139.1	138.4	138.9	138.7	138.0	138.2	137.9
% Chg Previous Month SAAR	-1.7	0.9	-10.0	10.2	12.0	2.6	5.3	-5.9	4.4	-1.7	-5.9	1.8	-2.6
% Chg Same Month Last Year	2.0	1.9	1.0	1.9	2.2	1.8	2.4	1.5	2.6	2.4	1.8	0.8	0.7
US Coincident Index (1996=100)	120.5	119.5	120.1	120.5	121.2	121.6	121.8	122.0	122.3	122.5	122.7	122.9	123.2
% Chg Previous Month SAAR	3.0	-9.5	6.2	4.1	7.2	4.0	2.0	2.0	3.0	2.0	2.0	2.0	3.0
% Chg Same Month Last Year	2.6	1.4	2.0	1.9	2.3	1.4	2.2	2.3	2.4	2.5	2.4	2.2	2.2
US Nonag Employment (Mil.)	133.6	133.8	133.8	133.9	134.2	134.4	134.5	134.7	134.9	135.0	135.1	135.3	135.4
% Chg Previous Month SAAR	2.2	1.6	0.4	0.3	3.2	1.3	1.4	1.8	1.6	1.0	0.9	1.2	1.1
% Chg Same Month Last Year	1.6	1.7	1.6	1.3	1.5	1.5	1.6	1.5	1.5	1.4	1.4	1.4	1.3
US Unemployment Rate (%)	5.0	4.9	5.1	4.9	5.0	4.9	4.7	4.8	4.7	4.7	4.6	4.6	4.8
US Manufacturer's New Orders Index (1996=100)	125.5	129.9	126.6	128.0	132.4	132.6	127.8	127.5	131.7	128.8	129.1	129.3	127.8
% Chg Previous Month SAAR	-31.6	51.4	-26.3	13.7	49.3	2.5	-35.6	-2.9	46.4	-23.3	3.0	1.7	-13.1
% Chg Same Month Last Year	0.4	4.8	3.0	5.5	6.0	5.8	2.8	2.5	7.1	3.8	-0.4	-0.2	1.8
US Initial Claims for UI (000s)	319.6	317.2	393.4	338.9	315.6	310.4	286.3	306.0	308.9	314.8	333.5	308.8	312.4
% Chg Previous Month SAAR	-14.8	-8.6	1,224.4	-83.3	-57.5	-18.1	-62.1	122.2	12.0	25.5	99.9	-60.3	14.9
% Chg Same Month Last Year	-7.2	-7.0	16.6	2.5	-4.0	-4.6	-14.2	-5.1	-9.8	-4.2	-0.6	-4.7	-2.3
US Industrial Production Index	108.3	108.6	107.2	108.4	109.4	110.4	110.3	110.7	111.2	112.1	112.2	113.4	113.9
% Chg Previous Month SAAR	-0.2	3.5	-14.7	14.6	11.7	12.0	-0.9	4.3	5.6	9.7	0.7	13.6	5.4
% Chg Same Month Last Year	3.1	3.1	2.0	2.4	3.2	3.5	3.2	3.1	3.7	4.6	4.4	4.7	5.2
US Personal Income Less Trans. (Bil. 2000 chained)	7,881.4	7,548.6	7,842.4	7,870.2	7,925.6	7,976.0	8,033.5	8,075.9	8,089.8	8,114.7	8,113.2	8,147.7	8,160.2
% Chg Previous Month SAAR	7.2	-40.4	58.1	4.3	8.8	7.9	9.0	6.5	2.1	3.8	-0.2	5.2	1.9
% Chg Same Month Last Year	3.2	-1.3	2.7	2.0	2.7	-0.7	3.2	3.8	4.2	4.4	4.2	4.0	3.5
CPI, All Urban (1982-84=100)	195.1	196.2	198.6	199.1	197.8	197.7	199.0	199.1	199.8	201.0	201.9	202.3	203.2
% Chg Previous Month SAAR	7.7	7.0	15.7	3.1	-7.6	-0.6	8.2	0.6	4.3	7.5	5.5	2.4	5.5
% Chg Same Month Last Year	3.1	3.6	4.7	4.4	3.5	3.4	4.0	3.6	3.4	3.6	4.1	4.3	4.2
US Retail Sales (\$Billions)	350.6	345.2	346.6	347.4	349.6	351.1	361.7	358.7	361.2	363.6	364.3	362.4	367.4
% Chg Previous Month SAAR	24.5	-17.0	4.7	3.1	7.8	5.1	43.2	-9.7	8.7	8.3	2.4	-6.1	17.5
% Chg Same Month Last Year	9.7	8.2	6.6	6.2	6.7	5.8	9.4	7.4	8.0	7.0	7.6	5.3	4.8
Manufacturing & Trade Sales (\$thous. 2000 chained)	922.3	923.1	917.2	920.5	929.0	935.7	947.0	942.9	947.7	945.4	951.9	946.1	*947.0
% Chg Previous Month SAAR	4.9	1.1	-7.4	4.4	11.7	9.0	15.5	-5.0	6.3	-2.9	8.6	-7.1	1.1
% Chg Same Month Last Year	3.7	3.0	2.4	2.8	3.3	3.0	4.0	4.1	4.6	3.8	4.0	3.0	2.7
US Consumer Expectations (1996=100)	85.5	76.9	63.3	63.2	69.6	80.2	78.9	74.5	76.0	73.4	68.2	72.0	72.5
% Chg Previous Month AR	7.3	-72.0	-90.3	-1.9	218.2	448.0	-17.8	-49.8	27.0	-34.1	-58.6	91.7	8.7
% Chg Same Month Last Year	-6.3	-12.8	-28.1	-24.6	-18.3	-11.8	-7.9	-11.7	-8.2	-4.7	-9.4	-15.3	-15.2
Ave. Prime Interest Rate (% NSA)	6.25	6.44	6.59	6.75	7.00	7.15	7.26	7.50	7.53	7.75	7.93	8.02	8.25

\*ARIMA estimation